

Message Text

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46/50

ACTION EB-11

INFO OCT-01 NEA-11 ISO-00 TRSE-00 AID-20 SSO-00 NSCE-00

USIE-00 INRE-00 CIAE-00 DODE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

STR-08 COME-00 FRB-02 XMB-07 OPIC-12 CIEP-02 LAB-06

SIL-01 OMB-01 FEA-02 INT-08 DRC-01 /155 W

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O 281121Z JAN 74

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC IMMEDIATE 5225

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CORRECTED COPY (TEXT)

E.O. 11652: GDS

TAGS: IBRD, IR

SUBJ: IBRD LENDING TO TEHRAN

REF: STATE 016373

SUMMARY: EMBASSY HAS EXPLORED PROBLEMS POSED REFTTEL CONCERNING IBRD LENDING TO IRAN. GOI IS FAVORABLE TO TAKING PART IN IBRD FUNDING AS WELL AS OTHER IFC TYPE ACTIVITIES IN DEVELOPING COUNTRIES. EMBASSY RECOMMENDS FAVORABLE US VIEW RE LOAN TO BE CONSIDERED BY IBRD JANUARY 29. END SUMMARY

1. ECONCOUNSELOR DISCUSSED PROBLEM ON JANUARY 26 WITH GOVERNOR CENTRAL BANK YEGANEH AND MANAGING DIRECTOR IMBDI KHERADJOU.

2. YEGANEH SAID HE WAS AWARE OF CONCERN BY THE IBRD BOARD OVER POSSIBLE US POSITION AND WAS HAPPY TO HAVE THIS OPPORTUNITY TO SET FORTH GOI VIEWS ON SUBJECT. HE SAID THAT IN PREPARATION FOR VISIT OF IBRD VP BENJENK (ARRIVED TEHRAN EVENING JANUARY 26), HE HAD ANTICIPATED THAT THIS MIGHT BE ONE OF THE SUBJECTS
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AND HAS ASKED FOR APPROPRIATE INSTRUCTIONS FROM THE SHAH WHICH

IF THEY FOLLOW HIS RECOMMENDATIONS WILL PLACE IRAN IN POSITION OF MORE THAN REPLACING ANY IBRD LENDING TO IRANIAN INSTITUTIONS. MORE SPECIFICALLY, YEGANEH SAID THAT GOI WILL BE ANXIOUS TO TAKE PART IN ANY IBRD BOND ISSUE WHICH MIGHT ARISE. BEYOND THAT, THROUGH THE INSTRUMENTALITY OF THE IMBDI, IRAN WOULD BE INTERESTED IN INVESTING IN IFC-TYPE PROJECTS IN OTHER DEVELOPING COUNTRIES WHICH WOULD BOLSTER EXPORT CAPACITIES OF THOSE COUNTRIES TO IRAN AND THE REST OF THE WORLD.

3. YEGANEH ALSO MADE THE POINT THAT THE DISCIPLINES IMPOSED ON IRAN'S INSTITUTIONS BY IBRD LENDING WERE ESPECIALLY WELCOME WHEN LARGE AMOUNTS OF EXCESS CAPITAL ARE AVAILABLE FOR PROJECT FINANCING. HE QUOTED THE PRIME MINISTER AS SAYING TO ONE MINISTER THAT "THE IBRD IS THE ONLY ROPE I HAVE TO TIE YOUR HANDS; IF YOU TAKE THAT AWAY I HAVE NO CONTROL." YEGANEH WENT ON TO SAY THAT THE IBRD IS A GREAT DEAL MORE THAN A COMMERCIAL LENDING INSTITUTION AND IT IS THIS ASPECT, I.E. THE DEVELOPMENT ASPECT, WHICH FROM THEIR POINT OF VIEW MAKES IT ESSENTIAL THAT IRAN'S RELATIONSHIP AS A BORROWER FROM THE IBRD CONTINUE. WHATEVER THE CASH INCOME MAY BE, IRAN IS STILL A DEVELOPING NATION. EVEN IN THIS REGARD, IRAN LAGS BEHIND THE PER CAPITA ANNUAL INVESTMENTS OF SUCH COUNTRIES AS SPAIN, FINLAND, VENEZUELA AND BRAZIL TO NAME BUT A FEW NATIONS WHICH ARE MORE ADVANCED THAN IRAN. HE NOTED THAT EVEN INVESTING THE TOTAL IRANIAN OIL INCOME OF DOLLARS 15 BILLION (MORE OR LESS) THIS YEAR WILL RESULT IN A PER CAPITA INVESTMENT FIGURE OF ONLY DOLLARS 500. THIS IS ROUGHLY HALF THE INVESTMENT OF THOSE COUNTRIES CITED ABOVE.

4. WHILE NOTING THAT FOR THE SHORT RUN IRAN WOULD FIND IT DIFFICULT TO UTILIZE ALL OF THE FOREIGN EXCHANGE EARNINGS BEING GENERATED BY INCREASED OIL PRICES, YEGANEH THINKS THIS IS A TEMPORARY SITUATION AND THAT IN TIME IRAN WILL FIND IT POSSIBLE TO UTILIZE ON A CURRENT BASIS MOST OF ITS OIL INCOME. IN THE MEANTIME IN ACCORDANCE WITH THE SHAH'S PUBLICLY STATED POSITIONS, THE GOI IS WILLING AND INDEED ANXIOUS TO PROVIDE ASSISTANCE TO OTHER DEVELOPING NATIONS IN WHATEVER MANNER SEEMED MOST APPROPRIATE. CERTAINLY, IN VIEW OF ITS CHANGED RELATIONSHIP WITH THE IBRD, THEY WOULD BE ANXIOUS TO PROVIDE FINANCIAL SUPPORT THROUGH WHATEVER MECHANISM SEEMED MOST APPROPRIATE BY

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IBRD.

5. KHERADJOU HAD VERY LITTLE DIFFERENT TO OFFER EXCEPT TO NOTE THAT HIS BANK WAS ACTIVELY CONSIDERING INVESTMENT IN PROJECTS IN OTHER DEVELOPING COUNTRIES ALONG THE LINES MENTIONED BY YEGANEH.

6. YEGANEH NOTED THAT THE NEXT BOARD MEETING CONSIDERING IRANIAN

LOAN WAS TO TAKE PLACE ON JANUARY 29. HE TRUSTED THAT THERE WOULD BE NO ADVERSE RECOMMENDATIONS ON THE LOAN IN VIEW OF THE GOI POSITION. AT THE SAME TIME HE NOTED THAT IRAN COULD EASILY RAISE THE MONEY IN THE WORLD MARKETS OR USE ITS OWN RESOURCES. HE REITERATED THAT THE DISCIPLINES IMPOSED ON IRANIAN INSTITUTIONS WERE OF SUCH A HIGH VALUE THAT THEY WOULD PREFER TO CONTINUE LIVING UNDER THE AT TIMES UNCOMFORTABLE YOKE OF THE IBRD.

7. DEPMINFIN AGAH DURING SOCIAL OCCASION (JANUARY 27) INFORMED AMBASSADOR THAT GOI WISHED TO CONTINUE ITS RELATIONSHIP WITH IBRD AND GENERALLY CONFIRMED POINTS MADE BY YEGANEH INFORMALLY THE DAY BEFORE. YAGANEH CALLED ECON COUNSELOR AFTERNOON JANUARY 27 TO OUTLINE GOI POSITION AS CONFIRMED BY SHSH'S INSTRUCTION. HE REITERATED POSITION IN THE FOLLOWING FOUR MAJOR POINTS:

A. GOI VERY STRONGLY WISHES TO CONTINUE ITS RELATIONSHIP WITH IBRD AND VAUES GREATLY THE TECHNICAL ASSISTANCE AND DISCIPLINE WHICH THESE RELATIONSHIPS ENTAIL.

B. GOI WILL SYMPATHETICALLY CONSIDER TAKING PART IN ANY IBRD FUNDING ACTIVITIES (AGAH NOTED THAT THE GOI WAS MAKING A DOLS6 MILLION CONTRIBUTION TO THE IDA.)

C. GOI WOULD BE INTERESTED IN TAKING PART IN ANY IFC TYPE (I.E. - SOFT LOAN) ACTIVITIES IN OTHER DEVELOPING COUNTRIES.

D. IF CONTINUED GOI/IBRD RELATIONSHIPS ARE NOT POSSIBLE ON FOREGOING BASES, THE GOI WOULD HAVE TO REEXAMINE ITS POSITION TO SEE WHETHER A NEW RELATIONSHIP MIGHT BECOME NECESSARY. YAGANEH STRONGLY HOPED THAT NO ADVERSE ACTION WOULD BE FORTHCOMING CONCERNING THE LOANS PRESENTLY UNDER CONSIDERATION.

8. COMMENT: HOWEVER MUCH SENTIMENT THERE MIGHT EXIST TO QTE SHOW 'EM WHO'S BOSS, UNQTE IT IS REALLY TOO SOON IN IRAN'S TRANSITION PERIOD FROM BORROWER TO LENDER TO EXACT A PRECISE
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STATEMENT OF POLICY OR PERFORMANCE IN ACCORD THEREWITH. ACCORDINGLY, EMBASSY STRONGLY RECOMMENDS THAT US POSITION ON THE IMDBI LOAN TO BE CONSIDERED AT JANUARY 29 BOARD MEETING BE FAVORABLE. CONSIDERATION OF ADDITIONAL LOANS SHOULD BE CONDITIONED ON GOI PERFORMANCE UNDER THE CRITERIA SET FORTH BY CG GOVERNOR YEGANEH ABOVE.
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